

Financial Planning for Singles

According to a U.S. Census Bureau report released in May 2006, approximately 90 million adults in the United States were unmarried and single in 2005. This group comprised 41% of all U.S. residents age 18 and older.

While being single may offer flexibility and autonomy in making financial decisions, it often signifies just one source of income and the need to manage finances more carefully. Many insurance and estate planning options favor married individuals and family relationships, and sharing financial obligations may simply not be an option for some singles. "Singles have unique financial needs that should not be overlooked when reviewing finances from a big-picture perspective," says Susan D'Angelo, CFP®, a financial planner with T. Rowe Price.

Here are some considerations that may help you put your financial planning, estate planning, and insurance needs on the right track.

Prioritize Your Finances

When following a long-term strategy in financial planning,

unmarried individuals should first prioritize investment goals, starting with building a financial safety net. "This is because a single person may not have the added resources or protection of a second income or health care coverage from a spouse," says D'Angelo. Following these steps can help you put a plan in place:

- Create an "emergency fund" before funding other savings goals. D'Angelo recommends, as a general rule, keeping three to six months' worth of living expenses in an account such as a high-yield money market.
- Identify short- and long-term savings goals. Short-term goals may include purchasing a house, while long-term goals may include saving for retirement. Take advantage of time; the longer your money is invested, the greater the potential for growth.
- Contribute at least enough to an employer-sponsored retirement plan (such as a 401(k)) to

maximize matching contributions (see the On Plan article on page 4). Then consider increasing your contribution each year until you reach approximately 15% of your salary, including your employer's match. If you've made the maximum allowed contribution to your 401(k) and still want to save more for retirement, consider investing in an individual retirement account (IRA).

- Begin managing your finances so that you are not taking on new debt, and take steps to reduce your existing debt. Look at interest rates and consolidate debts at a lower rate, if possible. Pay off credit cards with the highest interest rates first, and debt with the lowest interest rates last.

Start an Estate Plan

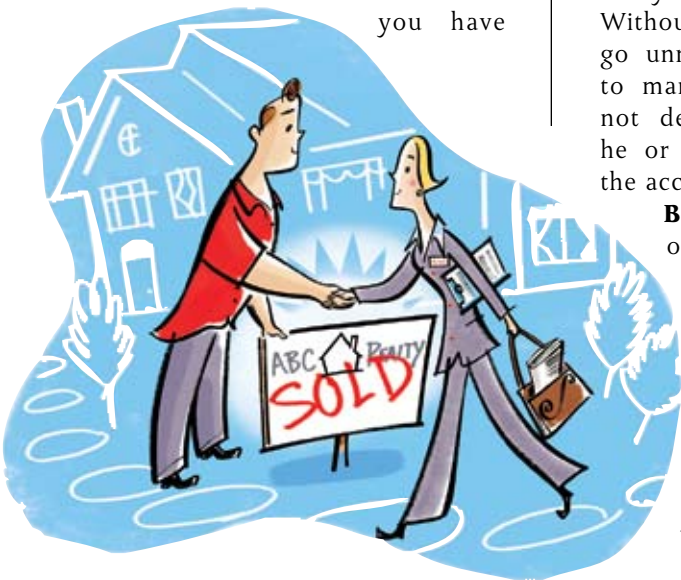
Estate planning is an important component of your overall financial plan. Unlike married couples who maintain some level of legal



authority for each other in the event of an emergency, without the appropriate documentation or designations, single adults may not automatically have someone who has the legal right to manage their assets or to make medical decisions on their behalf.

An estate plan can also determine who will inherit your assets as well as who will control the process. Once you have prioritized your financial goals, there are some basic documents that can serve as a starting point to help ensure that your financial wishes are followed.

A will is essential for notifying others how you want your assets distributed after your death. If you own anything of value—such as investments, property, or other personal possessions—you need a will. If you have



minor children, be sure to identify a guardian for them as well. Without a will, anyone can step in and ask for guardianship. It will then be up to the court system to appoint a guardian for your child. In addition, the state will decide how your assets are distributed, typically defaulting to your next of kin.

A health care proxy and living will take effect if you are incapacitated and cannot make medical decisions. A health care proxy names someone to act on your behalf, while a living will details your wishes. Without these documents, in most cases, the state will default to your next of kin to make decisions for you.

A durable power of attorney for finances allows someone to handle financial matters on your behalf if necessary. Without it, your finances may go unmanaged; the legal right to manage your accounts will not default to anyone unless he or she is a joint owner of the account.

Beneficiary designations on insurance policies and investment accounts take precedence over a will, so remember to review and update them every few years or after a life event such as a marriage, divorce, death of a loved one, or birth/adoption of a child.



Consider Your Insurance Needs

While a variety of insurance options are available, life insurance may have greater priority for single individuals with dependents. Of equal importance is disability insurance, which can help provide income in the event of an accident or prolonged illness. Without a second income to rely on, disability insurance can provide much needed protection for singles.

You should start with your employer when evaluating insurance plans. If you are about to change jobs, be sure to inquire about the cost of continuing medical coverage under COBRA (Consolidated Omnibus Budget Reconciliation Act) until you are covered under your new employer's plan; health expenses can be a significant monthly expense.

By following the simple steps of prioritizing your finances and including estate planning and insurance into your "big-picture" strategy, you can begin to develop sound habits that can positively affect your finances throughout your lifetime. 🐶